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Intelligence Report

Office of Transnational Issues

17 September 1997

IMF Austerity Programs: Limited Success Constraining Arms Purchases

Several high-profile arms deals in the past year illustrate the limited ability of the International Monetary Fund's austerity programs to constrain weapons purchases. Although the purpose of the IMF is not to curb specific arms purchases or reduce defense spending, the IMF often encourages borrowers to direct scarce resources to social projects rather than to the military. Some countries participating in IMF programs have used a variety of methods in the last year to fund arms buys:

- Peru used revenues from the sale of state-owned firms and probably other off-budget funds to finance a \$762 million contract for MiG-29 fighters and air defense equipment.

The IMF, moreover, is unlikely to exercise the oversight and political leverage necessary to deter most countries from carrying out their arms procurement plans.

This report was prepared by Office of Transnational Issues.

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Still Buying Arms

The International Monetary Fund (IMF)—whose principal task is to provide short-term loans to countries facing large balance-of-payment deficits—typically requires borrowers to commit to fiscal austerity programs, according to banking industry reports. These programs only establish macroeconomic targets for borrowers and leave implementation to local policymakers. [redacted] the IMF usually encourages borrowers to cut their defense spending, particularly expenditures of hard currency for imports of military equipment. [redacted]

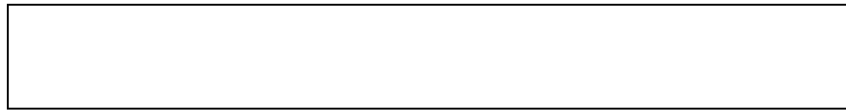
Several IMF borrowers continue to purchase arms.¹ Peru bought an estimated \$762 million worth of aircraft and air defense equipment from Belarus in late 1996 despite assuring international creditors [redacted] that it would not buy advanced fighter aircraft, [redacted]

- Lima and the IMF agreed to a three-year extended fund facility (EFF) in July 1996; President Fujimori approved the decision to buy arms from Belarus [redacted]

- [redacted] Peru has spent \$200 million on arms so far in 1997 and [redacted] the annual total could reach \$500 million. This would contradict Lima's April pledge to the IMF that it would spend only \$130 million to \$150 million on military purchases this year, [redacted]

¹ CIA arms trade figures indicate that the vast majority of the roughly 60 countries now participating in IMF programs have not made a major arms purchase in several years. The lack of arms imports by these countries, however, can be attributed to a variety of factors other than IMF conditions, including lack of funds and no security threat. [redacted]

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Funding Arms Purchases

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**Prospects Dim for Enhanced IMF Role in Curbing Arms Purchases**

The IMF is unlikely to exercise the oversight and leverage necessary to deter most countries from carrying out their arms procurement plans.

- If the IMF were to challenge major arms deals—such as on the grounds that they consume foreign exchange without bolstering the country's infrastructure or enhancing its ability to repay the Fund and other creditors—borrowing countries probably would protest the move as violating their national sovereignty.
- The IMF also lacks the political leverage necessary to dictate the spending priorities of relatively large countries such as Pakistan.



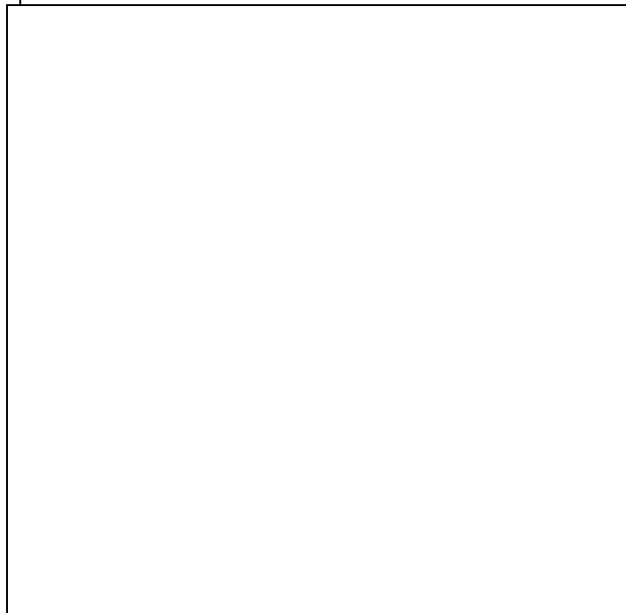
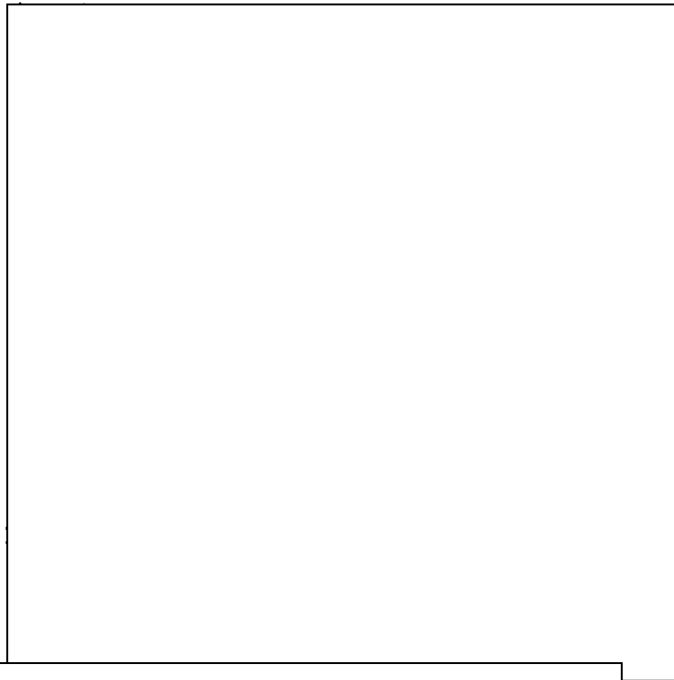
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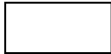
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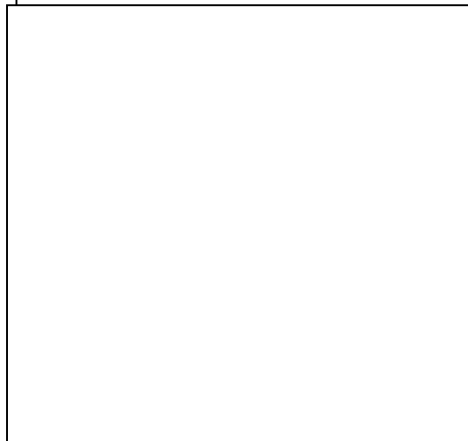
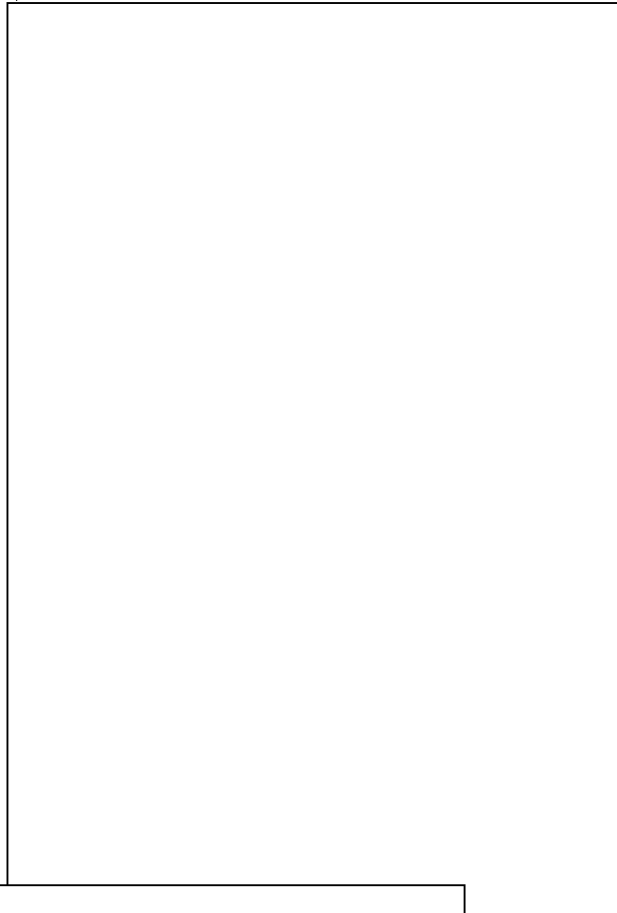


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